Derivatives & Risk Management

Q.P. Code: 00001074

[Time:3.00 Hrs.]	**[Marks:60]**

Please check whether you have got the right question paper.

N.B: 1. Q.1 would be compulsory and would carry 20 Marks.
2. Students have to attempt any four out of the remaining six Questions (Q.2 to Q.7) and within each question; students have to attempt any two Out of three sub – questions.

Q.1 Multiple choice questions with appropriate options: (Compulsory): **20X1**

1. The number of future contract outstanding is called ______________?
   a) Liquidity c) Float b) Volume d) Turnover

2. The binomial option pricing model makes use of an iterative approach, which enables the definition of nodes, also known as ___________
   a) Points in time c) Frequency in time
   b) Speed in time d) lots in time

3. Managing __________ results in time loss as compensation for projects.
   a) danger c) risks
   b) less risky d) cash

4. A long contract requires that the investor ___________________
   a) Sell securities in the future c) Buy securities in the future
   b) Hedge in the future d) Close out his position in the future

5. OTC it stands for ___________
   a) over-the-counter. c) over-the-credit.
   b) over-to-counter. d) Over-to-credit

6. "A ____________ is a commitment to purchase at a future date a given amount of a commodity or an asset at a price agreed on today."
   a) Forward contract c) Future contract
   b) Swaps contract d) Options contract

7. ____________ indicates the sensitive of option in respect to changes in volatility.
   a) VIGA b) VEGA c) VEEGA d) VIGI

8. All other things held constant premium on options will increase when the ___________________
   a) Exercise price increases b) Volatility of the underlying assets fails
   b) Term to maturity increases d) Both B & C

9. Composite value of traded stocks group of secondary market is classified as _____________
   a) Stock index c) Primary index
   b) Stock market index d) Limited liability index

10. The term "______________" is frequently used to describe an option's cost.
    a) Premium c) Par
    b) Discount d) issue

11. _____________ is one of the most well-known stress test methodologies.
    a) Philip Kotler c) Monte Carlo simulation.
    b) David Hunnar d) Allen Rodgrigues.

12. In the ________, the financial derivatives were also known as off-balance sheet instruments because no asset or liability underlying the contract was put on the balance sheet as such.
    a) 1980s c) 1990s
    b) 1970s d) 1950s

13. CDS it stands for ____________________
    a) credit default swap c) credit deposit swap
    b) cash default swap d) cash deposit swap

14. The payoffs for financial derivatives linked to
    a) Securities that will be issued in the future c) The volatility of interest rates
    b) previously issued securities d) The volatility of dividend rates

15. Which of the following is not a problem with an interest rate forward contract
    a) Low interest rate c) default risk
    b) lack of liquidity d) finding a counterparty

16. The _____________ derivatives have become increasingly popular and most commonly used in the world of finance.
    a) financial c) interest
    b) investment d) money

17. A __________ which derives its value from the prices, or index of prices of underlying securities.
    a) Contract c) Negotiation
    b) Investment d) Loan

18. The rate of change that occurs between the value of an option and a change of one percentage point in the interest rate is _______
    a) DHO b) RHO c) DFF d) HOR

19. Hedging by buying an option ______________
    a) Limits gain b) Limits losses

    c) Limits gain & losses d) Has no limit on losses

20. Historical volatility, is also known as _____________
    a) statistical volatility c) volatility
    b) statistical d) background volatility

Q.2		Attempt any two A) Explain in detail binomial option pricing model. B) Discuss acquiring Knowledge of the Option Pricing Theory. C) Explain the various types of settlements.	5X2
Q.3		Attempt any two. A) Discuss the participants of derivatives in the trading context. B) List the major features of forward contracts. C) Briefly, explain the Exchange-traded vs. OTC derivatives markets	5X2
Q.4		Attempt any two. A) Differentiate between Gamma Hedging vs. Delta Hedging. B) Write note on Volatility smile. C) Explain in detail black-scholes option pricing.	5X2
Q.5		Attempt any two. A) Write down the functions of clearing members? B) Explain in detail Hedging. C) Write note on DELTA.	5X2
Q.6		Attempt any two. A) Explain the three primary shapes of interest rates. B) Explain risk management process. C) Briefly discuss the trading mechanism of the forward market.	5X2
Q.7		Attempt any two Short Notes. A) Explain the difference between Historical and implied volatility. B) Briefly explain about the clearing mechanism? C) Discuss the advantages and disadvantages of Risk Management Process.	5X2